

Mossberg's Investor Digest

Best Idea Profile:

DESCRIPTION:

Palomar Medical Technologies designs, produces and sells advanced aesthetic and cosmetic lasers and intense pulsed light systems to dramatically improve the appearance of women's and men's skin. Its products are designed for applications such as laser liposuction, laser hair removal, skin resurfacing, photofacials for pigmented and vascular lesions, leg veins and acne treatment, and tattoo removal. Palomar professional systems have been installed in physician practices worldwide and Palomar is also focused on developing proprietary light-based technology for the mass direct-to-consumer markets. The Burlington, Massachusetts-based company was founded in 1991 and has more than 200 employees.

KEY INVESTMENT CONSIDERATIONS:

Exciting New Technologies – Palomar has invested heavily in research and development over the past few years, resulting in major new product and technology introductions. It launched Icon in 2011 and completed research and development efforts on Skintel, Emerge, and Vectus, which were introduced to the market in 2012. Laser hair removal is the largest segment of the aesthetic market, with tens of thousands of systems installed worldwide. Vectus is a significant advance in laser hair removal technology, offering a more profitable proposition for its users. It combines speed, reliability, low cost of ownership, portability, and accuracy in one system. Palomar's sales force is excited about the product and is receiving extraordinary feedback from buyers of the system. Management believes Vectus could be Palomar's best-selling product long term.

With the introduction of these products, Palomar has completed its cycle of major investments in core technology and should continue to experience a high new product introduction rate. R&D as a percentage of total revenue was 10% in the fourth quarter, as compared with 17% for the same quarter last year, which should be the new run rate throughout 2013.

Ability to Cross-sell Customers and Markets – Palomar is targeting new customers with low entry cost products with recurring revenue components. Its goal is to expand its customer base with the opportunity to up sell these sites at a later time with its full product portfolio. It is also leveraging its technology leadership into the direct-to-consumer market by exploring partnership opportunities with partners who have the

Palomar Medical Technologies, Inc. (NASDAQ:PMTI)

network and skills to market and distribute more effectively to this market. Palomar is also expanding geographically. North America represents 55% of product revenue but Palomar is increasing direct distribution internationally.

Increasing Consumer Awareness – Consumers are increasingly becoming aware of the benefits of light-based therapy for many aesthetic and cosmetic issues. Technology is putting these options at a price point that many people can afford and a comfort level they are willing to accept. More dermatologists and spas are able to offer these profitable services to their customers as demand increases and technology advances.

Profitable and Cash Rich – Palomar has \$5 per share in cash and no borrowing. In the most recent quarter Palomar reported its first profit since the 2009 recession, \$6 million in cash flow, and \$1.4 million in share buy backs.

VALUATION:

Having returned to profitability and with the heavy R&D spending behind it, Palomar's outlook for earnings growth is strong. Add to that the fact that Palomar has \$5 in cash and no debt and the risk/reward profile improves further.

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Investment Data (as of 3/6/13)

Recent Price	\$11.91
52-Week Range	\$7.06 - \$11.91
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	20.0 M
Average Trading Volume (3 mos)	60k
Market Capitalization	\$238 M
Cash	\$88 M
Long-term Debt	0
Enterprise Value (EV)	\$130 M
Book Value	\$7.54
TTM Revenue	\$80.6 M
P/ Revenue	2.9x
TTM EPS	\$(0.33)
P/ EPS	NA
TTM EBITDA	\$(4.5) M
EV/ EBITDA	(28.8)

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